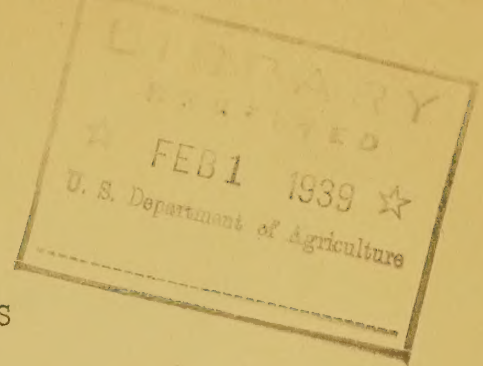


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U.S. Farm Sec. adm.



APPRAISAL OF TENANT PURCHASE FARMS

Washington, 1939, 3

In making an appraisal of farm property, the following points should be given consideration: (1) the general appearance (2) productivity (3) agricultural value (4) desirability (5) the general condition of the property.

When an appraiser first visits the farm, he should consider the above qualities and at first glance decide in his own mind the impression he receives. While it is never sound to judge entirely from first impressions, it must be remembered that on long term loans it is well to anticipate the necessity of resale at some time in the future, and desirable, well located, attractive properties are always readily saleable.

The second point to be considered is the actual appraisal of the farm land. A careful, actual, inspection of the entire farm should be made, boundaries checked, and every field, woodlot, pasture, spring, watercourse, road, etc., should be entered on a plat of the farm, whether this plat is made from metes and bounds given in the deed, from a surveyor's report, or from a sketch made at the time of appraisal. If no description is available, it is advisable to go to the highest point, or to a spot from where the entire farm is visible, and make a free hand sketch of the farm, checking this sketch by taking compass readings of each line and pacing where necessary. Whenever possible, if there is a survey report available or the deed contains a description of the metes and bounds, it is advisable to complete a plat of the farm from descriptions before visiting the property. This plat can be made using a protractor and ruler and using thin blocked paper so that when complete, copies may be transferred to the appraisal form.

For those who have not made plats from descriptions, the following method may be used: first, find in the description the longest course, from this description decide the scale to be used; for example, 20-40-60 perches, rods, etc. A surveyor's, or draftsman's ruler is best for scale work, as the inches are broken down in tenths. Second, decide which corner of the farm is the starting point of the description. If northeast, place a dot in the northeast corner of your sheet. If the description reads, for instance,--beginning at a stone at the northeast corner of the farm, then south 5° west, 120 perches--invert the protractor, placing the center of the base on the dot at the corner of the plat with the base running directly east and west, south will then be indicated by a line from the center of the base to the center of the arc, or 90°. Count off the required degrees west of south and with your ruler measure along this line, 3 inches if you are using a scale of 40 perches to the inch. Follow this process through the entire description given of the farm and the plat should close. If the line of the last course does not meet the starting point, there has

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been an error in making the plat or in the description. This plat should be compared to the boundaries of the farm.

A plat of some type is absolutely necessary and care should be used in its preparation so that the appraiser may be sure that the correct farm and acreage is being appraised. A protractor, draftman's ruler and field compass are necessary parts of an appraiser's tools just as a soil auger and camera.

The actual appraisal of the land.

First is the consideration of soil types and the following points must be considered since it is to be remembered that the earning power of the land on most farms is the determining factor in the success or failure of any certain farm as an economic unit over a long period of years. A poor type operator generally loses his home after a certain time and might be replaced by a better operator; new buildings can replace poor ones, but an inferior type of soil retains most of its undesirable characteristics forever. It may be improved, but the financial qualities that tend to make this type inferior will always remain. A soil of good type, even though neglected may be improved and built up.

A soil map should be used to assist the appraiser to determine relative values of soils as well as the different types in those sections where he is less familiar. The soil types, and the different grades within the types, give the appraiser his first clue as to the agricultural values of the land to be shown in his report. A soil auger should be used to determine the depth of top soil and the quality and character of sub-soils. While the top soil is very important, the sub-soil, in many cases, has an even more important bearing in regard to the agricultural value of the land from a long time standpoint; for instance, some sandy soils are underlain with pure sand and the loss of plant food through the sub-soil is excessive. Some silt loams and alluvial soils, and many glacial soils, have a plastic clay sub-soil with naturally poor drainage which necessitates some form of artificial drainage as well as special care in cultivation and are adaptable for only certain crops.

The second consideration is the condition and productivity of the soils within the type. The present agricultural condition of the land must be reflected in the per acre values to be given in the report and the appraiser should consider present production ability; bearing in mind the long time possibilities of the land in the hands of an average operator. Very little consideration should be given toward increasing the values, if a property has been used for special type farm operations in the hands of an individual, unless that type of operation is in general use in that area by the average operator.

A schedule of the contemplated type of agricultural operations to be carried out under the proposed farm plan will be furnished the appraiser

by the Rural Rehabilitation Supervisor, and on this basis, consideration should be given the land from a use standpoint.

The third consideration is the efficiency with which agricultural operations may be carried out on the farm; that is, whether the fields are accessible, easily operated, reasonably close to the buildings, whether water is available for livestock, whether the property is a compact unit and whether a minimum amount of effort may be expended to keep the land in good agricultural condition. It must also be remembered that the agricultural value of the farm is dependent to a certain extent on its accessibility and its proximity to suitable markets.

The value of timber, stone, gravel, mineral resources, etc., may be reflected in the sale or market value of the farm, but from an agricultural standpoint should be appraised only as to their agricultural value and use to the farm. However, consideration should be given the income derived from the sale of products from such sources annually in a manner which will not seriously detract from the actual value of the property or suddenly bring this supplemental source of income to an end, provided the normal annual sale of such material or products could be carried out by an average operator. Where there is a marked difference between the agricultural value and the market value, this should be explained in a narrative.

Appraisal of Buildings.

In setting forth the valuation of farm buildings, it is necessary to bear in mind not only the value of the buildings, based on replacement cost, but their value agriculturally to the farm. The first step is to determine the actual value of each building. In doing this, each should be measured to determine size, then carefully inspected to determine the kind and quality of materials used in original construction. The estimated original cost, less depreciation, gives the present or real value. This valuation may be used as a basis for fire insurance.

The second and most important value to be placed on the buildings is their agricultural value to the farm, that is, whether they are of the type and construction which leads to efficient operation of the farm, whether they can be handled economically, whether they are adapted to the use required of them, both from a present standpoint and from the use that would be required from them in the hands of an average operator, and last but not least, whether they are constructed from materials which will require a minimum of annual expense to assure their continued use and condition over a long period of time. Whether or not they form a complete farm building unit should also be considered.

The agricultural value of the buildings will rarely exceed, but in most cases will be far less than, the actual value based on replacement cost. Some buildings are so expensive to operate that they have no real value to the farm agriculturally. If all buildings are in good

condition, their agricultural value may be determined by considering them from a use standpoint. For example, the farm may have a \$10,000 home on it but if, under normal conditions, a house costing \$2,500 would adequately and appropriately serve as a farm home, the agricultural value would be shown as \$2,500. A barn with a present value of \$3,000 might require reconstruction at a cost of \$1500 to adequately meet use requirements. If, when completed, this barn would have an agricultural value of \$3,000, the appraiser would show an agricultural value of \$7,500 or less, prior to reconstruction.

Buildings that have no use in the normal operation of the farm should not be valued agriculturally.

As a guide it is important in making an appraisal for a long term loan that permanent repairs to buildings be considered and in a case where the house or barn roof, foundation or frame is in unsound condition, the necessary repairs should be mentioned by the appraiser in his remarks. All loans should be recommended with a thought toward long time preservation of the buildings and their corresponding effect on the earning power of the farm.

Where extensive repairs are necessary, this should be reflected in the values given present buildings.

The most important feature in an appraisal report is the normal agricultural value, which is the appraiser's estimate of the value of a farm as a unit, based on agricultural earning power under normal conditions in the hands of an average operator. The appraiser's estimated normal agricultural value may be checked in two ways; first, the itemized agricultural value to the land, plus the agricultural value of the buildings, may be added. This should give the approximate agricultural value of the farm, based on agricultural earning power.

Second, the landlord's net rental income if properly computed on a basis of landlord's income and expense should show a capitalization of from 3-1/3% to 5 or 5% on the estimated agricultural value.

The final consideration is the earning capacity of the farm. Great care should be taken in the preparation of the production schedule since it provides a check on the agricultural values given the farm and will indicate its true debt carrying and retiring capacity. Using the prospective crop schedule set up in the farm plan, which has been prepared by the rural rehabilitation supervisor, or a cropping schedule in general use in the community and suitable to the farm, the appraiser will set forth his own estimates of yields, based on present fertility and condition of the soil, taking into consideration the long range production possibilities of that particular farm in the hands of an average operator under normal agricultural conditions.

If the farm is located in an area where a landlord's income would be based on a percentage of crop yields or revenue derived from the sale

